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Business and Economic Conditions

New York, June, 1959

General Business Conditions

THE groundswell of improvement in business activity continues. Preliminary May reports indicate that records set in April have been equaled or surpassed. The advance is being felt throughout the economy – in manufacturing, trade, and services. Backlogs of unfilled orders are accumulating, a widespread rebuilding of inventories is under way, and interest in capital spending has been renewed. Especially encouraging have been the marked contraction in unemployment and the rise in employment and incomes which have stimulated consumer confidence and buying power. Business optimism has been helped by the resistance the steel industry is putting up to the wage-price spiral even though a strike seems increasingly probable. Meanwhile the economy has been getting an extra boost from the scramble for steel.

Negotiations to replace the expiring wage contract in the steel industry began May 5, but so far there is no indication of the terms on which union and management will agree. Steel officials estimate that their strike-conscious customers will have added 8 million tons of finished steel products to inventories during the first half. In other words, they may have stockpiled the equivalent of about 11 million tons of ingots, or roughly one full month's production at current record rates. With this cushion, many firms will be able to weather the first four to six weeks of a strike with little difficulty, and the immediate effects of a strike on industrial activity will be confined largely to the steel and allied industries. Opinion is virtually unanimous that by the fourth quarter the economy will be moving forward again.

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Shrinking Unemployment

Meanwhile, employment continues to mount. Employment in April totaled 65.0 million persons – a rise of 2.3 million in two months and the highest for any April on record. At the same time, unemployment declined to 3.6 million, a drop of about one fourth in two months. The employment increase, much greater than usual in March and April, was accompanied also by an increase in hours of work and some resort to overtime operations. There is still slack in the labor supply to accommodate further expansion of activity generally anticipated for the months ahead. About 5.3 per cent of the civilian labor force was out of work in April, well below the 7.5 per cent unemployed a year earlier, but above the average of 4.3 per cent in the prosperous years 1955-57. Thus, strikes apart, business improvement should not be curbed by manpower shortages in the near future.

The 1955-57 average unemployment rate – equivalent to about 3 million persons in terms of today's labor force – apparently approximates the minimum rate of "frictional" unemployment characteristic of our dynamic economy. A certain amount of unemployment is the price we must pay for a flexible labor force in which

workers are free to shift to more attractive jobs and employers are able to adjust employment to their operating needs. When people quit to look for something better, and enter or leave the labor force at their own discretion, the unemployment statistics are affected.

Some say that "frictional" unemployment need be no greater than, say, 2,000,000. Of course everyone likes to have plenty of jobs available. One of our statistical deficiencies is absence of data on job openings which in fact always exist in some dimensions. The general experience has been that when unemployment is down around or below 3 million many employers are shorthanded for lack of sufficient qualified applicants. In such circumstances employers competitively raise wage offers and we are off on an inflationary wage-price merry-go-round.

New Production Records

From all indications, general business activity is entering new high ground in the second quarter. Industrial production, according to the Federal Reserve index (seasonally adjusted, 1947-49=100), set a record of 149 in April, two points above March and 18 per cent higher than at the low point of the recession a year earlier. Durable goods output in April was 25 per cent greater than a year earlier and within one point of its December 1956 peak. Continued pressure for buildup of steel inventories has been a major factor in the recent rise, but the April figure also reflected a record output of building materials, increased demand for industrial machinery and trucks, and expanded output of consumer durable goods — automobiles, furniture, and television sets.

The automobile industry has experienced the most encouraging spring sales pickup since its bonanza year of 1955. Dealers sold 504,000 domestic cars in April, the largest monthly total since June 1957, and reports for the first 20 days of May show further gains. Sales of imported cars have jumped to 50,000 a month. Industry experts are increasingly confident that, with the stimulus of new "compact" models to be introduced in the fourth quarter, the forecast of 6 million domestic and imported car sales in 1959 will be reached or exceeded. Dealers' stocks have continued to climb and on May 1, according to Ward's Automotive Reports, they exceeded 1 million for the first time in history, including about 100,000 imported cars. Nevertheless, production schedules have remained high, partly as a precaution against a steel strike, but mainly because of favorable sales.

Although production of nondurable goods has risen less rapidly than that of durables, the nondurable goods index has regularly set new records since last August. Textiles are having the best production year since 1950, with some mills reporting forward buying into 1960, and the apparel industry is setting new output records.

Consumers Spending Confidently

Consumers, while discriminating, have been spending more freely. Retail sales in April were at a high of $18.0 billion (seasonally adjusted), up 9 per cent from the preceding year. Sales of automobiles and other hard goods have figured largely in the advance in recent months. Instalment credit is being drawn on more freely; consumer instalment credit outstanding rose over $1 billion, seasonally adjusted, in the first quarter.

The consumer price index has held steady within a range of 0.2 per cent for the past ten months, the longest period of stability since the index was started in 1913, according to Labor Department officials. A closer look at the components shows that the stability has rested on counteracting movements. A drop of 3.4 per cent since July 1958 in food prices has offset increases in other commodities and services. Similar offsetting tendencies have been apparent in the wholesale price index, where higher industrial prices have more than offset declines in prices of farm products and processed foods. With a seasonal rise in food costs expected in the next few months, a moderate upturn in the over-all indexes may result. At the same time, the delicate balance of recent months points up the need for greater vigilance against inflation and any government, business, or union policies which will exert further upward pressure on prices.

The steadily broadening scope of rising activity and the confidence and optimism pervading the latest business reports augur well for future expansion. Prosperity built on inventory accumulation — a major factor in the current upsurge — is transitory and may lead to excesses if not watched with caution. It does, however, serve to lay the groundwork for the next step — broadened activity in capital goods lines. Evidence is on hand that this is getting under way, although at a modest pace. With the problems of recession behind them, businessmen will now need to be alert to the problems of prosperity — pressures on prices, temptation toward excesses of inventories or credit use, and the eroding of the efficiencies and cost reductions introduced during the recession.

Developing Credit Stringency

With the improvement in business, strengthened credit demands are appearing from merchants and manufacturers as well as from individuals financing purchases on the instalment plan. These needs for borrowed money are converging on a market confronted with continuing heavy demands for credit from the construction industry and from federal, state, and local governments.

Pressures on the banks became sufficiently sharp by the middle of May to trip off an advance from 4 to 4½ per cent in the prime loan rate – the minimum loan rate charged to business customers of the highest credit standing. A parallel advance from 4 to 4½ per cent was announced by a number of the banks on loans to security brokers and dealers. Rumors were present in the market that the Federal Reserve Banks might soon raise their discount rates, from the prevailing 3 per cent level, in order to discourage banks from relying too much on borrowings from the Reserve Banks and to keep the pressure on them to sell investments – albeit at losses – to offset additions to loan portfolios.

Increases in Federal Reserve discount rates have been undertaken most generally after pressures on the money market have driven yields on Treasury bills above the discount rate. During May, 91-day Treasury bills traded for the most part around 2¾ per cent, actually below the average level of April, and, of course, below discount rate. On the other hand, longer-dated bills traded in a range from 3¼ per cent all the way up to 4 per cent.

While borrowings by banks from the Federal Reserve have been tending to rise with the enlargement in credit demand, they have shown no great increase. Bank borrowings averaged around $700 million daily during April and May, up from an average of $550 million during the first quarter of the year, but well below the $1 billion levels that developed in 1952-53 and 1955-57. While allowing the banks to feel the pressure of excess credit demands, the Federal Reserve authorities in their open market operations were careful to prevent acute pinches for funds.

The money market was reasonably liquid from the short-term standpoint but concern was felt that continuing business expansion will create severe pressures on liquidity later this year and in 1960. Even one-year money was not too freely available. The fact that 91-day Treasury bills stayed down around 2¾ per cent reflected willingness in the business and banking community to accept low rates for liquidity insurance.

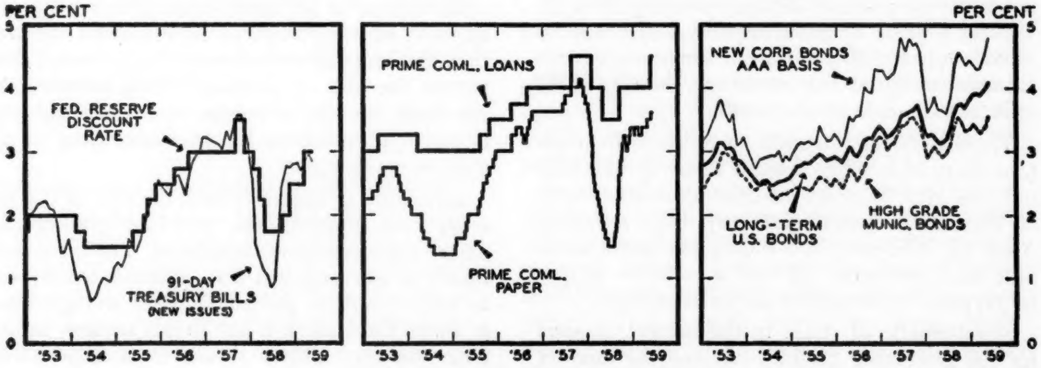
As the table below shows, discount rate and short-term open market money rates are still well below their levels of September 1957, when the money market was under considerable pressure. On the other hand, bond yields have moved beyond the September 1957 levels.

	Sept. 1957	June 1958	May 1959
Discount rate (Fed.Res.Bk.of N.Y.)	3.50%	1.75%	3.00%
Prime com'l. loan rate	4.50	3.50	4.50
Prime com'l. paper, 4-6 months	4.00	1.50	3.63
Prime 90-day bankers acceptances	3.75	1.13	3.25
91-day Treasury bills (new issues)*	3.58	0.88	2.85
3-5 year U.S. Governments*	3.93	2.25	4.15●
Long-term U.S. Governments*	3.66	3.19	4.09●
Municipal bonds, Bond Buyer*	3.54	2.97	3.57●
New corporate bonds, Aaa basis*	4.68	3.61	4.81●

* Monthly averages. ● Estimated.

Weakness in Bonds

Tensions in the market are apparent in all except the shortest Treasury issues. At the long end it was quite clear that the sale of 21- and 10-year 4s, in January and March, had saturated market demands at that yield level.



Money Rates and Bond Yields, Monthly, 1953-59

Both the 4s slipped below offering price and older low-coupon issues slid off almost continuously from mid-March to mid-May. With the entire bond market unsettled, new high-grade corporate offerings had to be marked up to 4¾ or 5 per cent to find buyers, and it seemed doubtful that long-term Treasuries could be sold even at a 4¼ per cent rate, which is the maximum present law permits the Treasury to pay on bonds. The suggestion was offered in some quarters that this limit should be raised or removed, so as to permit long-term borrowing when more confident market conditions permit.

The intermediate-term Treasury sector, around five years, was most acutely depressed, a result of bank selling to free funds for lending, or for underwriting participations in new Treasury security offerings. It was in this intermediate area that the highest Treasury yields developed. When prices touched their lows on May 18 the six-year 2⅝ per cent bonds issued last June were offered at 90⅞ to yield 4.44 per cent. It seemed incredible that these same bonds were the focus of speculative demand less than twelve months ago.

A better tone in bonds appeared in the last ten days of May as some sellers withdrew their offerings and bargain hunters put in bids. Steadier market conditions appeared to be developing to provide a foundation for the next Treasury cash financing scheduled for early July.

Short-Term Financing

In the circumstances, the Treasury limited its new security offerings during May to obligations due within one year. Even these securities, though attractively priced, encountered a reluctant reception.

The Treasury had maturing on May 15 $1.8 billion 1¼ per cent certificates of indebtedness, holders of which were offered in exchange 4 per cent one-year certificates maturing May 15, 1960 at a price of 99.95 to yield 4.05 per cent. Holders of only 70 per cent of the maturing certificates accepted the exchange, leaving $548 million to be redeemed in cash.

These cash requirements, together with funds to redeem $2.7 billion special Treasury bills falling due May 15, were covered by auction sales of $2 billion special Treasury bills maturing April 15, 1960 and $1.5 billion tax anticipation bills due December 22 and acceptable at par in payment of December 15 tax liabilities.

Symptomatic of strain in the market, tenders for the December tax bills covered the amount sought with no more than $199 million to spare; the April special bills had a larger cover but they encountered a slow secondary market even when underwriters offered them to yield the buyer a full 4 per cent. On May 27, offered yields on Treasury bills ranged from 2.85 per cent for 91 days to 3.91 per cent for 324 days. This abnormal spread in time will be narrowed, but meanwhile it reflects concern over where all the money is coming from to finance record construction outlays, governmental deficits, and business recovery besides.

The rates available on money and bond investments can be expected to attract new buying interest and enlarge the market. Moreover, business corporations have generally favorable conditions for raising money in the equity market, a circumstance that can relieve pressures for borrowed money. Foreign and international borrowers are being led to consider tapping capital markets in Europe to a greater extent. But there is no question that elimination of the federal deficit, by pruning expenditures, is needed to relieve the task of the money and capital markets.

The Taxes We Can Afford

The President has urged some curtailment of federal expenditures with a view to balancing the budget, retiring some of the public debt, and perhaps setting the stage for long postponed tax reforms. Chairman Wilbur D. Mills on May 17 announced that the House Ways and Means Committee was launching a study of the possibilities of broadening the tax base sufficiently to permit significant reductions in income tax rates in 1960. Mr. Mills said that tax reform must seek, among other things, a tax climate more favorable to economic growth; greater equity in distributing tax burdens; as little interference as possible with the operation of the free market mechanism; and greater ease of compliance and administration.

There are, to be sure, voices which urge the opposite course. Stressing how affluent we are, they ignore problems of excessive tax rates, disparage the idea of limiting federal spending to the flush current revenues and commend enlarged appropriations for public services in almost every direction.

Advocates of bigger federal outlays do not always face squarely the practical problem of where the money is coming from. Professor Galbraith of Harvard, it is true, endorses sales taxes to take it out on the standard of living. That is where the burden is apt to fall anyhow in the final analysis. Others shrink from unpalatable truths and speak vaguely of "closing tax loop-

holes," a selective form of tax increase; commend cheap money policies, a euphonious way of saying "print the stuff"; or figure that a growing economy, stimulated by increased federal spending, will enlarge incomes and raise income tax liabilities disproportionately so that Government can take a bigger share of what we earn without formally raising the tax rates.

The idea is that, however much the individual must stint to make ends meet, our collective wealth is so great that Government can toss out millions as though they were pennies.

It is a bad frame of mind to get into, feeling so rich we can afford anything the heart desires. Profligacy is the well-marked road to bankruptcy. Our esteemed wealth is very real but it is invested – in tools and machinery needed to equip the workman for efficient production. One thing we can least afford is to live off this capital – let our plant and machinery wear out. Yet that is what spending out of wealth implies. A growing economy demands quickened – not arrested – wealth accumulation.

What Government takes out of current production, the citizen is denied. The denial may be enforced by tax rate increases, ration books, or price inflation. All these are taxes in the sense that they reduce the value of the dollar earned and saved. If taxes encourage consumption and impede saving, wealth accumulation may be arrested and with it our means to more efficient production.

When we say we can afford more of one thing we mean we can give up something else. When we say Government can afford more we mean the citizen can get along on less.

There is a bland assumption that we have great reserves of taxing capacity. This is open to serious question. It is possible to tax away the seed corn of future progress. But there are limits to what the citizen willingly will give up. When taxes get too high the symptoms may variously appear in lethargy, in tax avoidance, in distortions of business judgments, in inflation. All these symptoms are present.

We should not decide we are so rich we can give up progress.

Diminishing Returns on Income Taxes

In income taxation we have gone beyond what we can afford if we want work, enterprise, and a land of opportunity. Writing in *The Saturday Evening Post* last November, Roswell Magill, Under Secretary of the Treasury under President Roosevelt and now chairman of the Tax Foundation, pointed out that:

> . . . to raise an extra $12,000,000,000 to meet this year's deficit, and to do it with present Federal income taxes, would require the confiscation of everyone's taxable income in excess of $4,000; or increase of the rate on corporations from the present 52 per cent to 82 per cent. Income taxes of that magnitude are almost unthinkable in a democratic state. The result would be economic chaos.

As it is, our federal income tax takes 50 per cent of a single person's taxable income beyond $16,000 and rises, step by step, up to 91 per cent, the highest personal income tax known in the world. As though this were not enough, employment taxes, and sometimes state and city income taxes, get added on besides. These levies aim straight at the heart of progress.

The question is not whether we can afford to increase income tax rates further but whether we can afford so to punish the energetic, block accumulation of risk capital by normal taxpaying enterprise, and invite outright evasion.

The rapidly growing number of tax "loopholes" in recent years has given the economy essential room to breathe but threatens to make the tax scoop into a sieve. Even people who helped set up the confiscatory rates have become alarmed and have called for rate reforms.

The latest of the special reliefs is the Keogh bill, recently passed by the House, which would permit employers or self-employed people – small businessmen, doctors, lawyers, etc. – to put aside 10 per cent of their income free of tax, within a $2,500 annual limit, in special retirement plans with banks or insurance companies. The goal is equality of tax treatment between the self-employed and employes who already have tax deferral on employer contributions to company retirement plans.

Congress is naturally sympathetic, for these people are invaluable members of our society. Congressmen know from personal experience how hard it is to build a nest egg in the face of our steep income tax rates.

The objection is that the Treasury cannot afford the revenue loss. Treasury experts figure that passage of the Keogh Bill would cost $365 million annually in lost revenues. If employes demanded and got the same tax treatment on *their* contributions to retirement plans the annual loss might run to $3 billion.

Furthermore, the increasing number of special provisions in the tax law, many understandable only by tax specialists, tends to make the ordinary taxpayer feel that he is not being treated fairly, that other people "are getting away with something." Tax morality begins to break down. People learn to accept the idea that cheating the Government is not really bad, "everybody does

it." The tax rates invite — indeed demand — diversion of effort from earning taxable incomes to saving on taxes. The end of this road is a demoralization of the voluntary tax system we have and its replacement by an authoritarian system based on a massive army of tax "policemen."

Meanwhile, we are seeing a continuing expansion in "fringe benefits," rewards for work which escape or defer the income tax burden. Although labor union leaders have assailed as "loopholes" such provisions for business executives, they have shifted emphasis in their own collective bargaining from taxable wages to more fringes.

It is time we stopped using a piecemeal approach and went to the heart of the tax problem — the confiscatory rates.

The Goal of Growth

Curiously, many advocates of faster economic growth ignore the drag of excessive tax rates on the economy. It has long been recognized that hardly anything surpasses tax policy in economic, political, and social importance. Chief Justice John Marshall's crisp summary, "the power to tax involves the power to destroy" goes back to 1819. A 1955 Congressional investigation into federal tax policies resulted in a 930 page volume of papers on "Federal Tax Policy for Economic Growth and Stability" and evoked from Congressman Mills the conclusion that: "One of the most important programs which will contribute to or detract from achieving steady, economic growth in the years ahead is our Federal tax policy." This solid evaluation we failed to heed.

It is not surprising that our tax structure discourages growth. The steeply progressive personal income rates we now have were put into effect in the 1930's when we thought we had all the productive capacity we needed and the aim was to discourage "over-saving." However appropriate they might have seemed at the time, they have no help to give the expanding America of the Space Age. The problem now is not surpluses of saving and investment but shortages.

The key to economic growth is imaginative enterprise. What we need, on the one hand, are real savings for investment and, on the other, incentives to put funds to work and to attract sustained effort from creative individuals. As Arthur Burns, former Chairman of the President's Council of Economic Advisers, has said: "I don't know of a surer way of killing off the incentive to invest than by imposing taxes which are regarded by people as punitive."

At the same time, excessive tax rates sharply cut the rewards attainable for extra effort by ambitious and industrious people who are trying to climb the economic ladder. The elder statesmen of American industry today moved up in an era when the demands of big jobs were matched by big rewards. The question is whether the rising young executive still has incentive to drive himself toward the rigors of top management positions or whether taxes have shaved the rewards to a point where a more relaxed life seems preferable. We are risking the deterioration of what Senator Hubert H. Humphrey has called "that greatest of American geniuses — our managerial talent."

Although many people think we are "soaking the rich," it is small business, the proving ground for so many business leaders and the seedbed for industrial giants, which suffers most under punitive tax rates. They dry up the sources of its most crucial need — venture capital. The personal income tax rate progression saps the unincorporated small businessman's ability to build his business. It also chokes off an important source of outside funds in years gone by: the successful individual, who once found pride and satisfaction as well as profit in giving a financial lift to a budding enterprise, no longer has the means to do so.

Government loans and subsidies to business are no substitute for tax reform. They breed dependence, destroy self-reliance. The task is to make self-reliance easier, more attractive.

Even under a fair and moderate tax rate structure, our economy may be hard pressed to generate all the savings needed to advance production and generate a rate of growth adequate to the Russian challenge. As William J. Grede, president of Grede Foundries and former president of the National Association of Manufacturers, has said: "Our survival as a nation of free people with a maximum of social values is dependent upon maximum economic development. We must strike from our system policies and practices which impede the accumulation and employment of capital on the largest possible scale . . ."

Canadian and British Tax Policies

Our ruthless taxation of income offers a poor model for other nations, wanting progress, to follow. The resurgence of the new industrial Germany dates from the adoption of free market principles and the discard of a suffocating income tax progression that had been imposed as a result of American advice.

It was Great Britain that set the general model of steep progression which we adopted during the Great Depression and World War II.

Other English-speaking nations for years now have been moving away from tax policies directed at destroying initiative and wealth accumulation. Australia was first to break the bonds of socialism and reform its income tax progression. In 1952 Canada began a gradual, year-by-year reform. In 1953 Great Britain itself, which had achieved the dubious honor of being the most heavily taxed country in the world, began to ease back its oppressive tax rate schedules. In the United States reform has been urged for years by members of both parties, as in the imaginative Sadlak-Herlong and Herlong-Baker bills which would spread out gradual income tax rate easement five years ahead. But nothing gets done because of political inertia and insistence that tax reductions be designed to stimulate consumption rather than enterprise and economic growth.

The latest tax moves abroad came in April when the Canadian Government increased taxes by $352 million, while the United Kingdom gave its taxpayers $1 billion relief, the biggest immediate tax cut they have ever had. Although opposite in direction, there is a good deal we can learn from both these actions.

The main lesson of the Canadian experience for us is that the series of foresighted tax reforms earlier in the postwar years provided a reserve of taxable capacity for emergencies. Even with the April increases Canadian personal income tax rates are far below wartime peaks. The new 84 per cent top rate for 1960 compares with a peak of 98 per cent during World War II. The 11 per cent rate on the first $1,000 of taxable income compares with 30 per cent on the first $500 of taxable income during 1943. A 2 point increase to 47 per cent in the corporate tax rate cancels a 1955 reduction.

Great Britain is providing an example of how a tax reform policy can invigorate an economy. A continuous string of tax concessions – including three reductions in income tax rates beginning in 1953 – has cut United Kingdom income tax rates to the lowest levels since 1939-40, produced a new spirit of optimism in the business community, and helped regenerate confidence in the pound sterling. The April reductions lowered the "standard" rate of British income tax – to which other rates are tied – from 42½ to 38¾ per cent. The lowest rate of income tax payable was reduced to 8¾ per cent, on the first $168 of taxable income, while the highest rate (including a 50 per cent surtax) was chiseled to 88¾ per cent, down almost 9 points from the 97½ per cent peak level which prevailed from 1942 to 1953. Income tax on corporations was reduced from 52½ to 48¾ per cent; shareholders continue to get credit at the "standard" rate on their own tax returns for income taxes paid by corporations on dividends.

The taxation to shareholders of corporate profits paid out in dividends is now lower in many cases in Great Britain than here. The taxation of retained profits is lighter and depreciation allowances are more realistic. The top personal income tax limit, while applying at a lower income level, has been brought below ours. Capital gains are tax-free.

Far from being depleted by the steady succession of tax cuts, the British Exchequer revenues have flourished. Britain's experience provides support for those in the United States who believe that a creative program of tax reliefs could pay its own way by freshening the flow of the revenues.

Congress might well ponder what *The Economist* of London had to say just before Britain's April tax cut: "One major incubus to a free economy alone remains, and it is the biggest of all: a rate of income tax that is blatantly higher than any society can for long carry in peacetime and still hope to remain dynamic."

A Refreshing Tonic

The United States has not had a general tax reduction since 1954, when the Internal Revenue Code was rewritten, part of the tax increases invoked in the Korean War emergency were rescinded, and a number of provisions were enacted to make the excessive rates that remained more tolerable. It was understood that income tax rate reform would be undertaken at the earliest opportunity.

The result of inaction is that in an increasingly competitive world we are left with the highest rate of personal income tax – within three points of its wartime 94 per cent peak – and a 52 per cent rate of tax on corporations. It is no wonder that American industry is having trouble holding leadership in world markets under the double disadvantage of top-scale wages and top-scale taxes.

We have been adding to Government spending programs now for four straight years. We have felt able to afford something for everyone but the taxpayer. The time has come to change the prescription. There could be no more refreshing tonic for the taxpayer and the economy than a well thought out program of income tax rate reductions.

There is no doubt that if we broadened the tax base and reduced the proportion of income

which now escapes tax we could have considerably lower rates. It is not generally realized that exemptions, exclusions, and deductions of all kinds leave little more than 40 per cent of total personal income subject to income tax. Congressman Mills has estimated that if we broadened the tax base, "we could have a tax rate structure on individuals that began at 10 per cent on the first thousand dollars and ended at 65 per cent and take in as much money to the Federal Treasury as we now take in under the present Internal Revenue Code . . ."

Whatever tax reform method is chosen will have to take account of the Treasury's revenue needs. But the important thing is to make a start by recognizing the mistake of concentrating taxes on what we want most—employment, work, and opportunity. We need to strengthen the value of the dollar earned and saved. We need to go ahead with gradual income tax rate reform, not only to invite voluntary compliance and arrest erosion of the tax base, but to build an environment of forward-looking optimism.

If there is one thing we cannot afford any longer it is the idea that *any* government spending program automatically should have priority over a citizen's use of his own money. When Government feels the necessity, for example, to spend more on defense or on aid for allies, the first place to turn is not to the citizens' standard of living through tax increases but to wasteful practices and programs within Government. In other words, our ability to afford a stronger defense establishment is partly measured by wastes of public funds on a variety of programs. It is not fair to expect the citizen to tighten his belt if Government does not tighten its own.

It is time we got our fiscal house in order. After all, as Roswell Magill pointed out in the article cited earlier:

> A nation as great, as productive, as wealthy as ours cannot concede that its financial problems are beyond solution. It cannot rely continuously on borrowing and inflation as its regular method of paying its bills.
>
> It should not be content with patching up an inadequate and archaic tax system. We should not be satisfied with anything less than a system that will permit our economy to grow at a healthy rate, that will enable us to pay-as-we-go for the governmental services we want at home, as well as those required to maintain our place in world affairs. And we must have a means of preserving a reserve of resources that can be used to meet any great emergency that may arise — something our present tax structure and dwindling borrowing power do *not* provide.

Surely American intelligence can be mustered to help our Government build a sound fiscal system, to match a sound economy and a sound defense.

The Progress of Socialism

The role of government in economic life — a topic of earnest, often heated debate since Plato's time — has lately come in for increased attention. More and more thoughtful people, public officials as well as private citizens, have been expressing concern, even alarm, over our "steady drift" away from individual to government responsibility.

A Cabinet official warns that government "impinges on our lives every hour of the day and night." A business leader decries "creeping interventionism" by government. A distinguished lawyer refers to the defeatist view: "The democratic process is fast withering in the nuclear blast. We must have total, secret, monolithic government; the individual no longer counts." An historian predicts: "We are entering an era when there will be less emphasis on private enterprise, and more on public, and when there will be less need for the 'rugged individualist' and more for the social-minded civil servant." A respected newsletter sums up 1958 for its clients: "This has been a year during which the United States has taken further strides down the inflationary road to socialism."

Although a threat of nationalization hung over the steel industry in 1952, government ownership of industry, communication, transportation has never been popular in this country. Our traditions of private property and free enterprise are deeply rooted in custom and in law. Nevertheless, modern-day welfare economics contain the most essential element of socialism which is, in the name of social justice, to weaken self-reliance.

A business enterprise can become dependent upon government for orders, for protection of property during labor disputes, for reasonableness in the enactment and administration of rules and regulations. Taxation, carried to extremes, can take away funds needed for self-support. Meanwhile, benefits dispensed free of charge represent an invitation to dependence.

"Liberalism" and "Progressivism"

Through European eyes, the American usage of "liberalism" or "progressivism" in place of socialism seems a bit strange. The distinguished Socialist, Ernest Bevin, then Foreign Minister in the British Labor Government, commented in 1949 that "the U.S.A. is as much a welfare state as we are. Only it is a different form." Earl Browder, former leader of the U. S. Communist Party, wrote in 1950: "State capitalism has progressed farther in America than in Great Britain."

Senator Harry Byrd, long a critic of wasteful government spending, warned in 1951:

> In many federal programs we are chasing a mirage of easy money in the form of deficit dollars. Some of us have been duped into believing that the easy dollars handed out by the federal government are something for nothing but, actually, these programs are adding to the public debt, are undermining the will of individuals, regimenting the production of agriculture and labor, controlling the practices of business, curtailing the solvency of states, and destroying the self-determination privileges which are traditional in our local governments and domestic customs.
>
> Make no mistake: It is socialism which lies at the end of this rainbow and, in this rainbow, the predominating color is the red of federal deficit spending under which a whole new generation of Americans has grown and developed.

Part of the reason for growth of government is that our country is bigger, social and economic problems more complex. In this age of specialization, we are interdependent as never before. Yet there is a need to guard against undue interference by government in our daily lives.

It was concern over where we are headed that provoked Edgar Eisenhower, the President's older brother, into commenting last fall:

> For a great many years I have watched our country rushing down the road to socialism. We have allowed fuzzy thinkers to pull their welfare wool over our eyes. . . .
>
> . . . I have two grandchildren and I would like them to enjoy the kind of Government I experienced in this country when I was a boy.
>
> In those days the Government didn't tell my employer what he must pay me, it didn't limit my hours of work, it didn't furnish me with school lunches, it didn't require me to belong to some kind of organization in order to work.

What is Socialism?

Socialism, according to the Encyclopedia Britannica, is ". . . a movement aiming at the collective organization of the community in the interests of the mass of the people by means of the common ownership and collective control of the means of production and exchange." This definition places primary emphasis on nationalization. Treated more broadly, however, socialism can mean a wide range of interventions by the State in free economic processes.

A different kind of definition was supplied by Senator Lyndon Johnson a few months ago: Socialism "is a word a fellow uses when he doesn't like you." The unpopularity of "socialism," as indicated by the Senator's definition, stems from its repeated failures and the distaste of freedom-loving people for regimentation.

The first attempt in this country dates back to the arrival of the settlers in Jamestown in 1607. The system of community goods and common trading had to be abandoned to keep the colonists from starving. History books tell us that the colonist working for himself produced 10 times as much as when he was laboring for the community. The Pilgrims at Plymouth colony had a parallel experience.

"Modern" socialism had its beginning midway in the first half of the 19th century – the time of Owen and Fourier, the "fathers of utopian socialism."

Though the Owen and Fourier experiments in cooperative living collapsed, the cooperative idea took hold in some lines of business. "Co-ops" in this country have enjoyed new growth and prosperity in the past 20 years. Their success is due to the skill, hard work, and dedication of their managers and to the fact that tax exemptions – and sometimes special subsidies – give them an advantage over other private businesses.

Among the thorny political issues of the day is the question of how and whether to tax co-operatives. It hardly seems fair to concentrate the weight of business taxation on investor-owned corporations. For these are also co-operative enterprises, and the co-operative also seeks profit. The difference is that dividends in the one case are related to invested capital and in the other to patronage.

The Marxian View

Karl Marx scoffed at peaceful "utopian socialists" and developed his "scientific socialism," based on a violent working class struggle for freedom from the "domination" and "unlimited avarice" of the capitalists. The idea was that socialism could be introduced only by a revolutionary "dictatorship of the proletariat," but that once achieved the Marxian goal of a "classless society" without "inequalities of wealth" could be peacefully maintained.

Max Eastman, who in 1934 was "on the side of the Soviets and the proletarian class struggle," 20 years later described the complete lack of freedom, justice, or equality that communism actually brought to Russia. In his 1955 book, *Reflections on the Failure of Socialism**, he noted:

> . . . the result is now well known: Officialdom gone mad, officialdom erected into a new and merciless exploiting class; the largest peace-time standing army in the world; the people universally *disarmed;* the functions of control and superintendence gripped in the fist of a ruling clique which, when needful, wages armed war on the people; the "slavery . . . horrors, savagery, absurdities and infamies of capitalist exploitation" so far outdone that they are talked of in secret as a lost paradise; bureaucrats everywhere, and behind the bureaucrats a gigantic army of high-paid state police; death for those who question or protest, death by execution without trial or by state-planned starvation in a slave camp.

*Devin-Adair Co., New York.

The majority of Socialist Parties outside Russia and her satellites have repudiated the Communists' revolutionary view. As far back as the 1880's, George Bernard Shaw's and Sidney Webb's Fabian Society (the forerunner of the British Labor Party) chose to achieve socialism through parliamentary means. The common aim of the evolutionary brands of socialism was steadily increasing state intervention in the economic field in order to bring about "the greatest happiness of the greatest number."

In the evening of his life Shaw learned to lament the tax confiscation of his own hard-earned income. True Socialists, like Tolstoy, willing to share their own wealth, are few and far between. Ironically, it is capitalists, builders of great fortunes, who have made the greatest charitable contributions. Their waning numbers are responsible for many of the demands being made upon the Federal Government for financial aids to welfare programs and educational institutions.

Taxes and Forced Philanthropy

Socialist reformers, in their quest for "economic justice for the masses," display two qualities: impatience and doubt as to the charitable instincts of man. The feeling is that individuals are slow about giving and, in any case, their generosity is insufficient. Thus, the power of government must abolish "income inequalities."

The income "leveling" process goes forward on many fronts — *e.g.*, with government-decreed minimum wages, social security programs, government-subsidized housing. The major tool, however, is the tax system which forcibly redistributes income, compels people to give. The idea is to tax away income from some and spread it around among the "less fortunate" — what has been aptly described as robbing selected Peter to pay collective Paul.

This philosophy reached its high-water mark among English-speaking peoples generally during the early postwar years. In Great Britain, especially, tax rates were at confiscation levels while the government, with its cradle-to-grave social security, assumed vast areas of responsibility once left to the people.

Such programs, even though well-meaning, defeat themselves by dealing a double blow to the real ingredients for economic progress and rising living standards. Sharply progressive taxes penalize the productive and cripple accumulation of capital for risky ventures, while welfare programs make more remote the tie between a person's income and what he contributes to society. Individual responsibility and the will to work are undermined and people become increasingly dependent on a paternal government.

Loss of opportunity takes the zest out of life for those who, in other circumstances, might have built great enterprises and made great gifts. Government meanwhile accumulates more and more dependents, removed from the labor force. The growing tax burdens shift inexorably towards the same masses the socialist state is intended to help. In the end everyone is poorer than he would have been if rare and gifted individuals had been stimulated to go ahead and seek out new and better ways to produce and satisfy human needs and wants.

Individual income tax rates in this country climb above 90 per cent. Although there is no direct government ownership of a major industry, the 52 per cent corporate tax rate in effect makes the Government the major stockholder. Or, as a business leader describes it: "We are already over half way to socialism with respect to three-quarters of the nation's production."

Social welfare spending in this country has more than doubled in the postwar period. Last year these government "transfer payments," which include such major programs as old-age pensions, veterans' benefits, unemployment compensation, and public assistance, totaled more than $24 billion — equal to about 10 per cent of the pay people earned, before deductions, in wages and salaries for working. Public assistance payments alone, which were supposed to "wither away" with the advent of the Social Security program, amounted to $3.4 billion in 1958 — double their level only 10 years ago.

Robert Tyson, chairman of the finance committee of U.S. Steel, commented not long ago on what he termed the American people's "wholesale" resort to the "political means of getting something for nothing from each other":

> . . . through progressively bitter tax punishment of the more productive and an ever-widening rewarding of the nonproductive, we are steadily adopting the Marxian dictum: "From each according to his ability, to each according to his need."
>
> This is something that communists warmly advocate we adopt, but which they themselves would not think of practicing because they know, having tried it out, that there is no more certain way to divert people from being productive to being indolent than to tell them that no one will be allowed to benefit very much from working harder, better or longer than his neighbors, and that no one needs to suffer very much from not working diligently.

It is worthy of incidental note that Soviet Russia itself makes sparing use of income taxation. Indeed, Mr. Khruschev spoke not long ago of plans to discard income taxation entirely. Adlai Stevenson, who visited Russia last fall,

reported that a Soviet construction chief made "perhaps $18,000 a year and his taxes are only about 6 per cent!" It could be that the speeding of industrial progress in the Soviet Union may be related to the new emphasis given to reward for achievement.

Crawford H. Greenewalt, president of du Pont, noted in his recent book, *The Uncommon Man**:

> . . . If financial rewards in the two countries are examined quantitatively, the Russians are not far behind us. What troubles me is to note that at the very time the Soviets are embracing our principle of incentive and show signs of benefiting thereby, we ourselves seem intent upon abandoning it.

Socialism by Fragment

Norman Thomas, six times an unsuccessful candidate for President on the Socialist Party ticket, is reported to have declared: ". . . this country would never vote for socialism as such, but . . . under the label of 'liberalism,' the people will vote for every fragment of socialism until one day we'll have it . . ."

If we are in danger of such "socialism by fragment," it is because there has developed among the people a willingness to let government assume a bigger role. A generation ago people relied more on their own efforts to solve problems, meet difficulties; now, all too often, the tendency is to turn to government – especially Federal Government.

President Eisenhower, at the 1957 Governors' Conference at Williamsburg, described this tendency:

> . . . Year by year, responding to transient popular demands, the Congress has increased Federal functions. So, slowly at first, but in recent times more and more rapidly, the pendulum of power has swung from our states toward central government.
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> Those who would be and would stay free must stand eternal watch against excessive concentration of power in government.

Each day's newspapers bring reports of new demands on government – for subsidies at the state level to provide "middle income" housing (defined, in New York, as families with earnings from $5,000 to $12,000 a year); for federal funds to clear slums, purify streams, aid distressed areas, build H-bomb shelters; for a national "fair trade" law to "protect consumers"; and for "federal standards" for state unemployment compensation laws.

Some of these things are good and worth the cost. But should the responsibility be accepted at home or should it be shrugged off onto the shoulders of ever-burgeoning federal agencies? Which way is appropriate in a society which puts its faith in the self-reliance of the individual?

Inevitably, as government programs proliferate and spending totals and tax exactions mount, impetus is given to inflation. This breeds even more government encroachment as people, discouraged by rising prices, seek "protection" – with price, wage, and profits controls – and more government handouts – *e.g.*, payments for medical and hospital bills and for education costs.

William A. McDonnell, chairman of the First National Bank in St. Louis, warned last month that "inflation and democracy are not congenial bedfellows":

> Time and time again freedom has been won by blood and lost by handouts of the people's own money – handouts usually financed by depreciation of the currency. In the days of old Rome, these handouts were called "bread and circuses." In modern times they go by the more euphemistic term of "social welfare."

Opportunity and Progress

We look upon our society as free and our country as the land of opportunity. Our forebears came to escape the regimentation of old Europe.

Opportunity for self-reliant people makes progress. Less than three centuries after the landings at Plymouth the United States had moved up to the head of the procession in production and levels of living. A social system of incentives and rewards, with reliance on private rather than government enterprise, brought unparalleled economic progress and security. Here was the most promising path to the universally-sought goal of maximum human welfare.

There is a great tendency to forget how we got ahead in the past and to seek progress on a foundation of government-administered welfare, displacing charitable instincts of the individual and making the government a philanthropic institution.

Treasury Secretary Robert B. Anderson, in an April address before the Associated Press, reached back in history for this solemn warning:

> In writing of the Greeks and Romans, one of our greatest classical scholars summed up their story in these words: "In the end, more than they wanted freedom, they wanted security, they wanted a comfortable life, and they lost it all – security and comfort and freedom . . . When the Athenians finally wanted not to give to society but for society to give to them, when the freedom they wished most for was freedom from responsibility, then Athens ceased to be free and was never free again."

We are morally bound – and can afford – to help the unfortunate. But we cannot afford, by vote-buying handouts, to destroy initiative or, by oppressive taxes and regulations, to remove opportunity for honest people to get ahead in life.

*McGraw-Hill Book Co., New York.

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